

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Empire	County Empire
Audit Date 2/29/04	Opinion Date 4/28/04	Date Accountant Report Submitted to State: 1/25/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

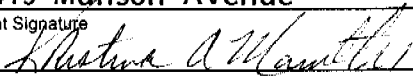
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Dennis, Gartland & Niergarth, P.C.			
Street Address 415 Munson Avenue	City Traverse City	State MI	ZIP 49686
Accountant Signature 		Date 1/25/05	

**Village of Empire
Leelanau County, Michigan**

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

February 29, 2004

Dennis, Gartland & Niergarth, P.C.

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Village of Empire

VILLAGE OFFICIALS

February 29, 2004

Michael Deering	President
Patricia Zoyhowski	Clerk
Chris Neiswonger	Treasurer
Ryan Deering	Trustee
Susan Michener	Trustee
Nathaniel Gray	Trustee
Virginia Trago	Trustee
Cheryl Fettes	Trustee
Edwin Simpson	Trustee

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable President and
Members of the Village Council
Village of Empire
Leelanau County, Michigan

We have audited the accompanying general purpose financial statements of the *Village of Empire*, Leelanau County, Michigan for the year ended February 29, 2004. These general purpose financial statements are the responsibility of the management of the Village of Empire. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Village of Empire as of February 29, 2004, and the results of its operations and the cash flows of its proprietary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Empire. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Honorable President and
Members of the Village Council
Village of Empire
Page 2

We previously audited the general purpose financial statements of the Village of Empire as of February 28, 2003, and for the year then ended (none of which is presented herein), and issued our report thereon dated April 24, 2003. In our opinion, the 2003 memorandum totals and supplemental financial information are fairly stated, in all material respects, in relation to the general purpose financial statements from which they have been derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2004 on our consideration of the Village of Empire's internal control and its compliance with laws and regulations.

Dennis, Gartland & Niergarth, P.C.

April 28, 2004

Village of Empire

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

For the year ended February 29, 2004

(With comparative totals for February 28, 2003)

	Governmental Fund Types		Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Enterprise	Internal Service		General Fixed Assets	Long-Term Debt	2004	2003
ASSETS									
Cash and cash equivalents	\$ 256,169	\$ 118,125	\$ 17,845	\$ 111,780	\$ 7,961	\$ -	\$ -	\$ 511,880	\$ 463,070
Restricted assets - cash	-	-	22,500	-	-	-	-	22,500	22,500
Investments	140,162	-	133,058	-	-	-	-	273,220	264,540
Accounts receivable	2,804	-	5,060	-	-	-	-	7,864	8,511
Due from other funds	-	-	-	4,226	-	-	-	4,226	4,266
Due from employees	300	-	-	-	-	-	-	300	305
Prepaid expenses	3,186	-	1,592	522	-	-	-	5,300	5,329
Inventory	-	-	1,925	-	-	-	-	1,925	1,925
Building and equipment	-	-	605,370	301,432	-	537,593	-	1,444,395	1,437,271
Construction in progress	-	-	41,212	-	-	-	-	41,212	41,213
Accumulated depreciation	-	-	(245,530)	(111,096)	-	-	-	(356,626)	(335,729)
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	3,049	3,049	2,771
Total assets	\$ 402,621	\$ 118,125	\$ 583,032	\$ 306,864	\$ 7,961	\$ 537,593	\$ 3,049	\$ 1,959,245	\$ 1,915,972

	Governmental		Proprietary		Fiduciary	Account Groups		Totals	
	Fund Types		Fund Types			General	Long-Term	(Memorandum	
	General	Special	Enterprise	Internal				Fixed	Debt
		Revenue		Service	Agency	Assets		2004	2003
LIABILITIES AND FUND EQUITY									
LIABILITIES									
Accounts payable	\$ 5,459	\$ 92	\$ 2,103	\$ 1,236	\$ -	\$ -	\$ -	\$ 8,890	\$ 45,968
Payroll withholdings	3,208	269	184	248	-	-	-	3,909	3,371
Due to other funds	4,226	-	-	-	-	-	-	4,226	4,266
Deferred revenue	8,247	-	426	-	-	-	-	8,673	8,570
Compensated absences	-	-	-	-	-	-	3,049	3,049	2,771
Revenue bonds payable	-	-	142,000	-	-	-	-	142,000	147,000
Total liabilities	21,140	361	144,713	1,484	-	-	3,049	170,747	211,946
FUND EQUITY									
Investment in general fixed assets	-	-	-	-	-	537,593	-	537,593	535,129
Contributed capital									
Federal sources	-	-	202,381	-	-	-	-	202,381	208,658
Local sources	-	-	3,894	-	-	-	-	3,894	3,894
Retained earnings									
Reserved	-	-	12,500	-	-	-	-	12,500	12,500
Designated	-	-	10,000	-	-	-	-	10,000	44,701
Undesignated, unreserved	-	-	209,544	305,380	-	-	-	514,924	431,115
Fund balance									
Designated	220,030	-	-	-	-	-	-	220,030	179,530
Undesignated, unreserved	161,451	117,764	-	-	7,961	-	-	287,176	288,499
Total fund equity	381,481	117,764	438,319	305,380	7,961	537,593	-	1,788,498	1,704,026
Total liabilities and fund equity	\$ 402,621	\$ 118,125	\$ 583,032	\$ 306,864	\$ 7,961	\$ 537,593	\$ 3,049	\$ 1,959,245	\$ 1,915,972

Village of Empire

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

For the year ended February 29, 2004

(With comparative totals for February 28, 2003)

	Governmental Fund Types		Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Expendable Trust	2004	2003
Revenues					
Property taxes	\$ 209,416	\$ -	\$ -	\$ 209,416	\$ 209,328
Licenses and permits	590	-	-	590	215
State shared revenue	30,953	38,436	-	69,389	72,504
Charges for services	830	-	-	830	1,400
Interest income	7,480	1,455	97	9,032	7,072
Other revenue	5,557	-	75	5,632	9,533
Total revenues	254,826	39,891	172	294,889	300,052
Expenditures					
Current					
Legislative	5,426	-	-	5,426	5,296
General government	131,020	-	-	131,020	136,001
Public safety	5,267	297	-	5,564	6,798
Public works	7,065	42,745	-	49,810	39,490
Recreation and cultural	38,891	-	-	38,891	36,733
Other expenses	-	-	2	2	-
Total expenditures	187,669	43,042	2	230,713	224,318
EXCESS REVENUES OVER (UNDER) EXPENDITURES	67,157	(3,151)	170	64,176	75,734
Other financing sources (uses)					
Operating transfers in	-	10,719	-	10,719	10,858
Operating transfers out	(30,000)	(5,718)	-	(35,718)	(40,124)
Total other financing sources (uses)	(30,000)	5,001	-	(24,999)	(29,266)
EXCESS REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	37,157	1,850	170	39,177	46,468
Fund balance, beginning of year	344,324	115,914	7,791	468,029	421,561
Fund balance, end of year	\$ 381,481	\$ 117,764	\$ 7,961	\$ 507,206	\$ 468,029

The accompanying notes are an integral part of these financial statements.

Village of Empire

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS

For the year ended February 29, 2004

	General Fund		Special Revenue Funds		Totals (Memorandum Only)	
	Amended Budget	Actual	Variance Favorable (Unfavorable)	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property taxes	\$ 213,735	\$ 209,416	\$ (4,319)	\$ -	\$ 209,416	\$ (4,319)
Licenses and permits	350	590	240	-	590	240
State shared revenue	32,500	30,953	(1,547)	39,015	69,389	(2,126)
Charges for services	1,800	830	(970)	-	830	(970)
Interest income	5,500	7,480	1,980	1,270	8,935	2,165
Other revenue	500	5,557	5,057	-	5,557	5,057
Total revenues	254,385	254,826	441	40,285	294,717	47
Expenditures						
Current						
Legislative	5,620	5,426	194	-	5,426	194
General government	283,031	131,020	152,011	-	131,020	152,011
Public safety	9,948	5,267	4,681	1,050	5,564	5,434
Public works	8,000	7,065	935	45,458	49,810	3,648
Recreation and cultural	53,790	38,891	14,899	-	38,891	14,899
Total expenditures	360,389	187,669	172,720	46,508	230,711	176,186
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(106,004)	67,157	173,161	(6,223)	64,006	176,233
Other financing sources (uses)						
Operating transfers in	-	-	-	10,750	10,719	(31)
Operating transfers out	(40,000)	(30,000)	10,000	(5,750)	(35,718)	10,032
Total other financing sources (uses)	(40,000)	(30,000)	10,000	5,000	(24,999)	10,001
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(146,004)	37,157	183,161	(1,223)	39,007	186,234
Fund balance, beginning of year	344,324	344,324	-	115,914	460,238	-
Fund balance, end of year	\$ 198,320	\$ 381,481	\$ 183,161	\$ 114,691	\$ 499,245	\$ 186,234

Village of Empire

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RETAINED EARNINGS - PROPRIETARY FUND TYPES

For the year ended February 29, 2004
(With comparative totals for February 28, 2003)

	Enterprise Water Fund	Internal Service Equipment Fund	Totals (Memorandum Only)	
			2004	2003
Operating revenues				
Charges for services	\$ 50,302	\$ 49,130	\$ 99,432	\$ 77,911
Service installations	10,800	-	10,800	1,800
Other	634	-	634	479
Total operating revenues	<u>61,736</u>	<u>49,130</u>	<u>110,866</u>	<u>80,190</u>
Operating expenses				
Payroll and related benefits	16,865	15,579	32,444	33,042
Supplies	2,913	1,754	4,667	4,048
Professional services	14,622	346	14,968	15,815
Utilities	3,697	2,105	5,802	5,486
Repairs	1,774	289	2,063	1,748
Equipment rental	2,660	-	2,660	3,038
Gas and oil purchases	-	2,993	2,993	3,047
Insurance	2,469	1,398	3,867	9,135
Depreciation	8,587	12,310	20,897	30,709
Miscellaneous	1,905	23	1,928	2,516
Total operating expenses	<u>55,492</u>	<u>36,797</u>	<u>92,289</u>	<u>108,584</u>
Operating income (loss)	<u>6,244</u>	<u>12,333</u>	<u>18,577</u>	<u>(28,394)</u>
Nonoperating revenue (expense)				
Interest revenue	5,261	1,093	6,354	7,280
Interest expense	(7,100)	-	(7,100)	(7,350)
Net nonoperating revenue (expense)	<u>(1,839)</u>	<u>1,093</u>	<u>(746)</u>	<u>(70)</u>
NET INCOME (LOSS)	4,405	13,426	17,831	(28,464)
Transfers from other funds	-	25,000	25,000	29,266
Add depreciation on fixed assets acquired by grants	<u>6,277</u>	<u>-</u>	<u>6,277</u>	<u>6,277</u>
Net increase in retained earnings	10,682	38,426	49,108	7,079
Retained earnings, beginning of year	<u>221,362</u>	<u>266,954</u>	<u>488,316</u>	<u>481,237</u>
Retained earnings, end of year	<u>\$ 232,044</u>	<u>\$ 305,380</u>	<u>\$ 537,424</u>	<u>\$ 488,316</u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

COMBINED STATEMENT OF CASH FLOWS PROPRIETARY FUND TYPES

For the year ended February 29, 2004

(With comparative totals for February 28, 2003)

	Enterprise Water Fund	Internal Service Equipment Fund	Totals (Memorandum Only)	
			2004	2003
Cash flows from operating activities				
Cash received from customers	\$ 70,728	\$ 49,130	\$ 119,858	\$ 98,029
Cash payments to suppliers and employees	(90,782)	(26,015)	(116,797)	(56,873)
Interest received	5,261	1,093	6,354	7,280
Interest paid	(7,100)	-	(7,100)	(7,350)
Net cash flow from operating activities	<u>(21,893)</u>	<u>24,208</u>	<u>2,315</u>	<u>41,086</u>
Investing activities				
Purchase of fixed assets	(3,102)	(1,557)	(4,659)	(53,803)
Purchase of investments	22,338	-	22,338	(3,965)
Net cash from investing activities	<u>19,236</u>	<u>(1,557)</u>	<u>17,679</u>	<u>(57,768)</u>
Capital financing activities				
Bonds retired and contract payments	(5,000)	-	(5,000)	(5,000)
Non-capital financing activities				
Transfers from other funds	-	25,000	25,000	29,266
INCREASE (DECREASE) IN CASH	<u>(7,657)</u>	<u>47,651</u>	<u>39,994</u>	<u>7,584</u>
Cash, beginning of year	<u>48,002</u>	<u>64,129</u>	<u>112,131</u>	<u>104,547</u>
Cash, end of year	<u><u>\$ 40,345</u></u>	<u><u>\$ 111,780</u></u>	<u><u>\$ 152,125</u></u>	<u><u>\$ 112,131</u></u>

The accompanying notes are an integral part of these financial statements.

Village of Empire

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES

Governmental Entity

The accounting policies of the Village of Empire (the "Village"), Leelanau County, Michigan, as reflected in the accompanying general purpose financial statements for the year ended February 29, 2004, conform to generally accepted accounting principles for local government units as prescribed by (1) the Governmental Accounting, Auditing and Financial Reporting (GAAFR) Manual (1980), (2) The Statements published by the National Council on Governmental Accounting (NCGA), (3) the Industry Audit Guide released by the American Institute of Certified Public Accountants (AICPA) effective for years beginning on or after January 1, 1989, and amendments thereto, and (4) Governmental Accounting Standards Board Pronouncements. The more significant accounting policies are summarized below.

The criteria established by NCGA Statement 3 for determining the various organizations to be included in the Village's general purpose financial statements include oversight responsibility, scope of public service and special financing relationships. These financial statements include only the funds of the Village of Empire which are listed in the table of contents. These are the only funds which meet the criteria of NCGA Statement 3.

Fund Accounting

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report, into four generic fund types and three broad fund categories as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and intergovernmental revenues.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Village applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments on a cost-reimbursement basis.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Village in an agency capacity. Trust and Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

General Fixed Asset Group

Fixed assets used in governmental fund type operations are accounted for in this account group. All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

General Long-term Debt Account Group

The general long-term debt account group is used to account for long-term debt expected to be financed from governmental funds. The account group is not a "fund." It is concerned only with the measurement of financial position and not with the measurement of the results of operations.

Basis of Accounting

Funds Using the Modified Accrual Basis of Accounting

- General Fund
- Special Revenue Funds
 - Major Street Fund
 - Local Street Fund
 - Liquor Law Enforcement Fund

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Funds Using the Modified Accrual Basis of Accounting - Continued

The above-mentioned governmental funds use the modified accrual basis of accounting. Modification in this method from the accrual basis is as follows:

- a) Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.
- b) Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on July 1 with the final collection date of September 15 before they are added to the County tax rolls.
- c) Interest income on special assessments receivable is not accrued until its due date.
- d) Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- e) Payments for inventorial types of supplies are recorded as expenditures at the time of purchase.

Funds Using Accrual Basis of Accounting

Enterprise Funds
Water Fund
Equipment Fund

Under the accrual basis of accounting, revenues are recorded at the time they are earned and expenses are recorded at the time liabilities are incurred.

Budgeting Process

Each February, a budget for the ensuing fiscal year is prepared by the Village Clerk and Council. Budgets are prepared for governmental funds. A public hearing is held to solicit comments from the Village residents. Subsequent to the hearing, the budgets are adopted by the Village Council.

Investments

Cash invested includes corporate money market funds and certificates of deposit.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Village considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Inventory

Inventory is valued at the lower-of-cost or market.

Fixed Assets

Fixed assets purchased by governmental fund types are recorded in the general fixed asset accounts group.

Fixed assets purchased by the proprietary funds are recorded at cost as assets in those funds and are depreciated over the estimated useful lives using the straight-line method. Estimated useful lives are:

Sewer and water mains	40 - 60 years
Buildings	30 - 40 years
Machinery and equipment	5 - 30 years

Total Columns On Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present the financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Interfund eliminations have not been made in this column.

NOTE B - DEPOSITS AND INVESTMENTS

Michigan law authorizes the Village to deposit and invest in the accounts of Federally insured banks, credit unions and savings and loan associations located in Michigan; bond securities and other obligations of the United States; United States government obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications. The investment fair values are equal to their reported values.

All monies of the Village are deposited with four financial institutions, which provide FDIC and SIPC insurance coverage. The Village's deposits and investments are as follows:

		<u>Bank Balance</u>		
	<u>Carrying Value</u>	<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Cash and cash equivalents	\$481,380	\$322,192	\$ 331,580	\$653,772
Investments and deposits	<u>326,220</u>	<u>150,606</u>	<u>-</u>	<u>150,606</u>
	<u>\$807,600</u>	<u>\$472,798</u>	<u>\$ 331,580</u>	<u>\$804,378</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE C - SUMMARY OF FIXED ASSETS

The following is a summary of fixed assets in the Proprietary Funds at February 29, 2004:

	Beginning Balance <u>03/01/03</u>	2003-04 <u>Additions</u>	2003-04 <u>Deletions</u>	Ending Balance <u>02/29/04</u>
<u>Water Fund</u>				
Water systems	\$579,310	\$ -	\$ -	\$ 579,310
Buildings	6,078	-	-	6,078
Equipment	2,207	2,524	-	4,731
Meters	14,673	578	-	15,251
Construction-in-progress	<u>41,212</u>	<u>-</u>	<u>-</u>	<u>41,212</u>
Total	<u>\$643,480</u>	<u>\$ 3,102</u>	<u>\$ -</u>	<u>\$ 646,582</u>

	Beginning Balance <u>03/01/03</u>	2003-04 <u>Additions</u>	2003-04 <u>Deletions</u>	Ending Balance <u>02/29/04</u>
<u>Equipment Pool Fund</u>				
Buildings	\$ 97,170	\$ -	\$ -	\$ 97,170
Equipment	<u>202,705</u>	<u>1,557</u>	<u>-</u>	<u>204,262</u>
Total	<u>\$299,875</u>	<u>\$ 1,557</u>	<u>\$ -</u>	<u>\$301,432</u>

A summary of changes in general fixed assets follows:

	Beginning Balance <u>03/01/03</u>	2003-04 <u>Additions</u>	2003-04 <u>Deletions</u>	Ending Balance <u>02/29/04</u>
Land	\$312,045	\$ -	\$ -	\$312,045
Land improvements	126,769	-	-	126,769
Buildings	58,170	-	-	58,170
Equipment	35,429	369	-	35,798
CIP	<u>2,716</u>	<u>2,095</u>	<u>-</u>	<u>4,811</u>
Total	<u>\$535,129</u>	<u>\$ 2,464</u>	<u>\$ -</u>	<u>\$537,593</u>

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE D - LONG-TERM DEBT AND CHANGES IN LONG-TERM DEBT

The following is a summary of transactions which occurred in bonds payable during the year ended February 29, 2004:

	<u>Water System Bonds</u>
Balance, March 1, 2003	\$147,000
Debt retired	<u>5,000</u>
Balance, February 29, 2004	<u>\$142,000</u>

The Village sold bonds in 1980 for construction of a water system. The bonds will be retired in the year 2020; interest is charged at 5%.

Amortization on long-term debt is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>		<u>Total Requirement</u>
		<u>March 1</u>	<u>September 1</u>	
2004-05	\$ 5,000	\$ 3,550	\$ 3,425	\$ 11,975
2005-06	6,000	3,425	3,275	12,700
2006-07	6,000	3,275	3,125	12,400
2007-08	6,000	3,125	2,975	12,100
2008-09	7,000	2,975	2,800	12,775
2009-10	7,000	2,800	2,625	12,425
2010-11	7,000	2,625	2,450	12,075
2011-12	8,000	2,450	2,250	12,700
2012-13	8,000	2,250	2,050	12,300
2013-14	9,000	2,050	1,825	12,875
2014-15	9,000	1,825	1,600	12,425
2015-16	9,000	1,600	1,375	11,975
2016-17	10,000	1,375	1,125	12,500
2017-18	10,000	1,125	875	12,000
2018-19	11,000	875	600	12,475
2019-20	11,000	600	325	11,925
2020-21	<u>13,000</u>	<u>325</u>	<u>-</u>	<u>13,325</u>
	<u>\$142,000</u>	<u>\$36,250</u>	<u>\$32,700</u>	<u>\$210,950</u>

A summary of changes in general long-term debt is as follows:

	<u>Balance 03/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 02/29/04</u>
Compensated absences	\$2,771	\$278	\$ -	\$3,049

NOTE E - PROPERTY TAX LEVY

The Village collects real property taxes between July 1 and September 15. After this time, the taxes become delinquent and must be paid at the County Treasurer's office. The County pays the Village for uncollected taxes as of September 15 out of the proceeds of revolving tax notes. Personal property taxes are the responsibility of the Village to collect.

In 2003, the Village levied a total real and personal property tax of \$209,416, of which \$200,826 was collected before becoming delinquent; \$8,590 was paid by the County after becoming delinquent. Personal property taxes of \$1,663 remained receivable at February 29, 2004.

The 2003 tax levy was on \$22,981,669 of State taxable value at 9.1300 mills.

NOTE F - RISK MANAGEMENT

The Village pays an annual premium to Michigan Municipal Underwriters for its general insurance coverage. The Village carries coverage for property damage, liability, wrongful acts, automobile, crime and inland marine claims. Also, the Village carries worker's compensation insurance with the Michigan Municipal League. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE G - PENSION PLAN

The Village participates in a defined contribution (money purchase) pension plan. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the years ended February 29, 2004 and 2003 was \$66,980 and \$81,409, respectively; total payroll for the years ended February 29, 2004 and 2003 was \$107,408 and \$106,451, respectively. Employer contributions are based upon a percentage of annual payrolls. Employees make additional contributions at 10% of gross wages. Employees are vested 100% immediately in employee contributions and are vested as follows in employer contributions:

<u>Years of Service</u>	<u>Percent Vested</u>
0 - 2	20%
3	40
4	50
5	75
6	100

The Village fully funded its required contribution for the years ended February 29, 2004 and 2003. Current year employer contributions amounted to \$3,349 or 5% of covered payroll. There were employee contributions of \$3,098 during the year.

None of the plan's assets are invested in Village securities or those of related parties. There are no loans from the plan to the Village.

NOTES TO FINANCIAL STATEMENTS - Continued

NOTE H - STATEMENTS OF CASH FLOWS

A reconciliation of net earnings to cash from operating activities follows:

	Enterprise <u>Water</u>	Internal Service <u>Equipment</u>	Totals Year Ended February 29, <u>2004</u>
Net income	\$ 4,405	\$13,426	\$17,831
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation	8,587	12,310	20,897
Decrease in accounts receivables	302	-	302
Decrease in due from other funds	-	40	40
Decrease in accounts payable	(35,369)	(1,666)	(37,035)
Decrease (increase) in accrued liabilities	79	98	177
Increase in deferred revenue	<u>103</u>	<u>-</u>	<u>103</u>
Net cash from operating activities	<u><u>\$ (21,893)</u></u>	<u><u>\$24,208</u></u>	<u><u>\$ 2,315</u></u>

NOTE I - FUND BALANCE DESIGNATIONS

A portion of the Village's fund balance is designated for the following reasons:

	<u>2002</u>	<u>2003</u>
Sand Building, sewer and study	\$ 3,989	\$ 3,989
Sidewalk	69,361	39,361
Infrastructure	30,000	20,000
Computer and software	822	322
Christmas decorations	2,308	2,308
Park	31,049	31,049
Cable franchise fees	7,651	7,651
Storm sewer	<u>74,850</u>	<u>74,850</u>
	<u><u>\$220,030</u></u>	<u><u>\$179,530</u></u>

NOTE J - SUBSEQUENT EVENT

The Village has made a commitment to a construction project of M-22 to begin in April 2002 at an estimated cost of \$214,000. As of February 29, 2004, \$43,929 had been spent on the project. The project will be funded with bond proceeds.

COMBINING AND INDIVIDUAL FUND STATEMENTS

Village of Empire
GENERAL FUND
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

For the year ended February 29, 2004
(With comparative totals for February 28, 2003)

	Amended Budget	Actual	Variance Favorable (Unfavorable)	2003 Actual Totals
Revenues				
Property taxes	\$ 213,735	\$ 209,416	\$ (4,319)	\$ 209,328
Licenses and permits	350	590	240	215
State shared revenue	32,500	30,953	(1,547)	33,147
Charges for services	1,800	830	(970)	1,400
Interest income	5,500	7,480	1,980	6,037
Other revenue	500	5,557	5,057	9,483
Total revenues	254,385	254,826	441	259,610
Expenditures				
Legislative				
Council	5,620	5,426	194	5,296
General government				
Administration	246,705	97,651	149,054	102,044
Elections	435	294	141	627
Clerk	30,573	29,366	1,207	29,907
Treasurer	3,818	3,709	109	3,423
Contingency	1,500	-	1,500	-
Total general government	283,031	131,020	152,011	136,001
Public safety - planning commission	9,948	5,267	4,681	5,673
Public works - street lighting	8,000	7,065	935	7,645
Recreation and cultural				
Park department	53,790	38,891	14,899	36,733
Total expenditures	360,389	187,669	172,720	191,348
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	(106,004)	67,157	173,161	68,262
Other financing uses				
Operating transfers out	(40,000)	(30,000)	10,000	(34,266)
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES AND OTHER USES	(146,004)	37,157	183,161	33,996
Fund balance, beginning of year	344,324	344,324	-	310,328
Fund balance, end of year	\$ 198,320	\$ 381,481	\$ 183,161	\$ 344,324

Village of Empire

SPECIAL REVENUE FUNDS COMBINING BALANCE SHEET

February 29, 2004

(With comparative totals for February 28, 2003)

	Major Street Fund	Local Street Fund	Liquor Law Enforcement	Totals (Memorandum Only)	
				2004	2003
ASSETS					
Cash	\$ 59,828	\$ 55,378	\$ 2,919	\$ 118,125	\$ 116,257
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 35	\$ 57	\$ -	\$ 92	\$ 115
Payroll withholdings	137	128	4	269	228
Total liabilities	172	185	4	361	343
FUND BALANCE	59,656	55,193	2,915	117,764	115,914
Total liabilities and fund balance	\$ 59,828	\$ 55,378	\$ 2,919	\$ 118,125	\$ 116,257

Village of Empire

SPECIAL REVENUE FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

For the year ended February 29, 2004
(With comparative totals for February 28, 2003)

	Major Street Fund	Local Street Fund	Liquor Law Enforcement	Totals (Memorandum Only)	
				2004	2003
Revenues					
State shared revenue	\$ 22,874	\$ 14,545	\$ 1,017	\$ 38,436	\$ 39,357
Interest income	741	683	31	1,455	988
Total revenues	<u>23,615</u>	<u>15,228</u>	<u>1,048</u>	<u>39,891</u>	<u>40,345</u>
Expenditures					
Public safety	-	-	297	297	1,125
Public works	19,211	23,534	-	42,745	31,845
Total expenditures	<u>19,211</u>	<u>23,534</u>	<u>297</u>	<u>43,042</u>	<u>32,970</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>4,404</u>	<u>(8,306)</u>	<u>751</u>	<u>(3,151)</u>	<u>7,375</u>
Other financing sources (uses)					
Operating transfers in	-	10,719	-	10,719	10,858
Operating transfers out	(5,718)	-	-	(5,718)	(5,858)
Total other financing sources (uses)	<u>(5,718)</u>	<u>10,719</u>	<u>-</u>	<u>5,001</u>	<u>5,000</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(1,314)</u>	<u>2,413</u>	<u>751</u>	<u>1,850</u>	<u>12,375</u>
Fund balance, beginning of year	<u>60,970</u>	<u>52,780</u>	<u>2,164</u>	<u>115,914</u>	<u>103,539</u>
Fund balance, end of year	<u>\$ 59,656</u>	<u>\$ 55,193</u>	<u>\$ 2,915</u>	<u>\$ 117,764</u>	<u>\$ 115,914</u>

Village of Empire
MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended February 29, 2004

(With comparative totals for February 28, 2003)

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2003 Actual Totals</u>
Revenues				
Intergovernmental				
State shared revenue	\$ 23,000	\$ 22,874	\$ (126)	\$ 23,434
Interest income	435	741	306	517
Total revenues	<u>23,435</u>	<u>23,615</u>	<u>180</u>	<u>23,951</u>
Expenditures				
Wages - clerk	390	346	44	325
Routine maintenance	7,320	6,317	1,003	3,737
Winter maintenance	8,200	10,963	(2,763)	8,313
Payroll tax	450	390	60	279
Audit fees	400	346	54	300
Retirement	310	298	12	311
Insurance	595	542	53	477
Bank service charge	20	9	11	5
Total expenditures	<u>17,685</u>	<u>19,211</u>	<u>(1,526)</u>	<u>13,747</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	5,750	4,404	(1,346)	10,204
Other financing uses				
Operating transfers out	<u>(5,750)</u>	<u>(5,718)</u>	<u>32</u>	<u>(5,858)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES	-	(1,314)	(1,314)	4,346
Fund balance, beginning of year	<u>60,970</u>	<u>60,970</u>	<u>-</u>	<u>56,624</u>
Fund balance, end of year	<u>\$ 60,970</u>	<u>\$ 59,656</u>	<u>\$ (1,314)</u>	<u>\$ 60,970</u>

Village of Empire

LOCAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended February 29, 2004

(With comparative totals for February 28, 2003)

	Amended Budget	Actual	Variance Favorable (Unfavorable)	2003 Actual Totals
Revenues				
State shared revenue	\$ 15,000	\$ 14,545	\$ (455)	\$ 14,909
Interest income	800	683	(117)	453
Total revenues	<u>15,800</u>	<u>15,228</u>	<u>(572)</u>	<u>15,362</u>
Expenditures				
Wages - clerk	585	526	59	485
Routine maintenance	10,100	7,754	2,346	5,192
Winter maintenance	10,100	13,427	(3,327)	10,838
Payroll taxes	518	476	42	346
Audit fees	400	346	54	300
Retirement	350	353	(3)	363
Insurance	700	640	60	567
Bank charges	20	12	8	7
Capital outlay	5,000	-	5,000	-
Total expenditures	<u>27,773</u>	<u>23,534</u>	<u>4,239</u>	<u>18,098</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(11,973)</u>	<u>(8,306)</u>	<u>3,667</u>	<u>(2,736)</u>
Other financing sources				
Operating transfers in	<u>10,750</u>	<u>10,719</u>	<u>(31)</u>	<u>10,858</u>
EXCESS REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>(1,223)</u>	<u>2,413</u>	<u>3,636</u>	<u>8,122</u>
Fund balance, beginning of year	<u>52,780</u>	<u>52,780</u>	<u>-</u>	<u>44,658</u>
Fund balance, end of year	<u>\$ 51,557</u>	<u>\$ 55,193</u>	<u>\$ 3,636</u>	<u>\$ 52,780</u>

Village of Empire

LIQUOR LAW ENFORCEMENT FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

Year ended February 29, 2004

(With comparative totals for February 28, 2003)

	Amended Budget	Actual	Variance Favorable (Unfavorable)	2003 Actual Totals
Revenues				
State shared revenue	\$ 1,015	\$ 1,017	\$ 2	\$ 1,014
Interest income	35	31	(4)	18
Total revenues	<u>1,050</u>	<u>1,048</u>	<u>(2)</u>	<u>1,032</u>
Expenditures				
Wages	760	130	630	906
Benefits	189	166	23	219
Other	101	1	100	-
Total expenditures	<u>1,050</u>	<u>297</u>	<u>753</u>	<u>1,125</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	-	751	751	(93)
Fund balance, beginning of year	<u>2,164</u>	<u>2,164</u>	<u>-</u>	<u>2,257</u>
Fund balance, end of year	<u>\$ 2,164</u>	<u>\$ 2,915</u>	<u>\$ 751</u>	<u>\$ 2,164</u>

**REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable President and
Members of the Village Council
Village of Empire

We have audited the general purpose financial statements of the Village of Empire as of and for the year ended February 29, 2004, and have issued our report thereon dated April 28, 2004. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Empire's general purpose financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Empire's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Village Council and others within the organization. However, this report is a matter of public record and its distribution is not limited.

Dennis, Gartland & Niergarth, P.C.

April 28, 2004